

# LEOFF 1 Survivor Benefits

## **Background**

The surviving spouse of a LEOFF 1 retiree is eligible to receive a benefit equal to the retiree's monthly retirement allowance. A spouse must have been married to a LEOFF 1 member for one year prior to retirement or separation from service in order to qualify as a surviving spouse. The benefit includes a yearly cost-of-living-adjustment for the full amount of any increase in the Seattle-Tacoma-Bremerton CPI-W.

Members who choose to designate a spouse from a post-retirement marriage as a beneficiary accept an actuarial reduction of their benefit.

Members propose allowing a spouse from a post-retirement marriage to receive an unreduced benefit if the spouse was married to the member at least 5 years before the member's death and the allowance is deferred until the surviving spouse is age 55.

## **Committee Activity**

### **Presentation:**

December 16, 2003 - Full Committee Meeting

## **Recommendation to Legislature**

None

## **Staff Contact**

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# Select Committee on Pension Policy

## LEOFF 1 Survivor Benefits

*(December 10, 2003)*

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<b>Issue</b>	The retirement benefit of a LEOFF 1 member who designates a spouse from a post-retirement marriage is actuarially reduced. Members propose allowing a spouse from a post-retirement marriage to receive an unreduced benefit if the spouse was married to the member at least 5 years before the member's death and the allowance is deferred until the surviving spouse is age 55.
<b>Staff</b>	Robert Wm. Baker (360) 586-9237
<b>Members Impacted</b>	Any of the 1,147 active, 22 terminated vested, or 7,987 retired members of this system who might marry or re-marry after their separation from service could be affected by this proposal.
<b>Current Situation</b>	<p>The surviving spouse of a LEOFF 1 retiree is eligible to receive a benefit equal to the retiree's monthly retirement allowance. A spouse must have been married to a LEOFF 1 member for one year prior to retirement, or separation from service, in order to qualify as a surviving spouse. The benefit includes a yearly cost-of-living-adjustment for the full amount of any increase in the Seattle-Tacoma-Bremerton CPI-W.</p> <p>Members who choose to designate a spouse from a post-retirement marriage as a beneficiary accept an actuarial reduction of their benefit.</p>
<b>History</b>	HB 1715 and SB 5788 were introduced in the 2003 legislative session. These bills would have granted an unreduced benefit deferred to age 55 to a post-retirement spouse who had been married to the member at least 5 years before the member's death. Neither bill received a hearing.

### **Policy Analysis**

Until recently, spouses of Washington state retirement system members were only able to share in a member's retirement benefit if they were married during the member's career. Law changes in 2001 and 2002 allowed members to designate spouses from post-retirement marriages only if such a designation were of no cost to the plans, i.e. the benefit was actuarially reduced.

### **Administrative Impact (DRS)**

Input requested.

### **Executive Committee Recommendation**

Forward the issue to the full committee for their consideration.

### **Bill Draft**

See attachment.

### **Fiscal Note (Draft)**

See attachment.

# FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/10/03	Z-0889.1/04

## SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by providing survivor benefits to spouses of post-retirement marriages. To be eligible, spouses must have been married to the LEOFF 1 member for at least 5 years prior to the member's death and the survivor benefit is deferred to age 55.

Effective Date: 90 days after session.

## CURRENT SITUATION:

Currently, the surviving spouse of a LEOFF 1 retiree is eligible to receive a survivor benefit which is equal to the retiree's monthly retirement allowance. The survivor benefit includes a yearly cost-of-living-adjustment for the full amount of any increase in the Seattle-Tacoma-Bremerton Consumer Price Index for Wage Earners and Clerical Workers (CPI-W).

A spouse must have been married to a LEOFF 1 member for one year prior to retirement, or separation from service, in order to qualify as a surviving spouse and receive the unreduced benefit. A member who had not been married prior to retirement may designate a spouse from a post-retirement marriage and accept an actuarially reduced benefit.

## MEMBERS IMPACTED:

Any of the 1,147 active, 22 terminated vested, or 7,987 retired members of this system who might marry or re-marry after their separation from service could be affected by this bill.

The eligible spouse of a retired member receives the same benefit as the retired member. The eligible spouse of a deferred vested member receives the same benefit as the member would have received at age 50.

The average retirement benefit is currently \$ 2,730 a month.

## ASSUMPTIONS:

Currently, 60% of members die with an eligible spouse. For purposes of this bill, we have assumed an additional 20% (or half of the remainder) would die with an eligible spouse due to the expanded eligibility for survivor benefits under this bill. A recent survey of 10% of the retired member and beneficiary population of fire fighters from LEOFF 1 indicated that 11% have married since retirement.

## FISCAL IMPACT:

### Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

<b>Law Enforcement Officers' and Fire Fighters' Retirement System</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Projected Benefits</b> (The Value of the Total Commitment to all Current Members)	\$4,338	\$ 243	\$4,581
<b>Unfunded Actuarial Accrued Liability</b> (The Portion of the Plan 1 Liability that is Amortized at 2024)	\$(757)	\$ 243	\$(514)
<b>Unfunded Liability (PBO)</b> (The Value of the Total Commitment to all Current Members Attributable to Past Service)	\$(830)	\$ 240	\$(590)
<b>Required Contribution Rate (state)</b>	(5.04)%	<b>1.38%</b>	(3.66)%

## Fiscal Budget Determinations:

While there is no impact while the plan remains fully funded, below we show the change in the projected contributions starting when the plan is no longer expected to be fully funded (based on a 13.6% rate of investment return through August 31, 2003 and assuming an annual return on the Market Value of assets of 8% thereafter).

### Costs (in Millions):

#### 2004-2005

##### State:

General Fund	\$0.0
Non-General Fund	<u>0.0</u>

**Total State** **\$0.0**

Local Government \$0.0

Total Employer \$0.0

Total Employee \$0.0

#### 2005-2007

##### State:

General Fund	\$0.0
Non-General Fund	<u>0.0</u>

**Total State** **\$0.0**

Local Government \$0.0

Total Employer \$0.0

Total Employee \$0.0

#### 2004-2029

##### State:

General Fund	\$769.0
Non-General Fund	<u>0.0</u>

**Total State** **\$769.0**

Local Government \$4.3

Total Employer \$773.3

Total Employee \$4.3

## State Actuary's Comments:

Predicting when a plan might come out of full funding is rather difficult. The effect of the proposed plan change is more predictable, once the plan is no longer fully funded. The above costs are based on one projection of costs which shows the plan to emerge from a fully funded status during the 2004-2029 timeframe. More specifically, the projection shows that contributions will resume at the start of 2011-2013 biennium (before this proposed plan change) and will resume at the start of the 2007-2009 biennium after this proposed plan change (if adopted).

We have estimated the actual rate of investment return for the period 10/1/2002 through 8/31/2003 at 13.6%. The return on assets usually has the most significant impact on the plan's funded status from one year to the next.

## STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report or in the body of this fiscal note include the following: None.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2004 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

## GLOSSARY OF ACTUARIAL TERMS:

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Unfunded Actuarial Accrued Liability (UAAL):** The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

1       AN ACT Relating to extending death benefits to certain surviving  
2 spouses under the law enforcement officers' and fire fighters'  
3 retirement system; and amending RCW 41.26.160 and 41.26.161.

4       BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5       **Sec. 1.** RCW 41.26.160 and 2002 c 158 s 1 are each amended to read  
6 as follows:

7       (1) In the event of the duty connected death of any member who is  
8 in active service, or who has vested under the provisions of RCW  
9 41.26.090 with twenty or more service credit years of service, or who  
10 is on duty connected disability leave or retired for duty connected  
11 disability, the surviving spouse shall become entitled, subject to RCW  
12 41.26.162(2), to receive a monthly allowance equal to fifty percent of  
13 the final average salary at the date of death if active, or the amount  
14 of retirement allowance the vested member would have received at age  
15 fifty, or the amount of the retirement allowance such retired member  
16 was receiving at the time of death if retired for duty connected  
17 disability. The amount of this allowance will be increased five  
18 percent of final average salary for each child as defined in RCW  
19 41.26.030(7), subject to a maximum combined allowance of sixty percent



1 of final average salary: PROVIDED, That if the child or children is or  
2 are in the care of a legal guardian, payment of the increase  
3 attributable to each child will be made to the child's legal guardian  
4 or, in the absence of a legal guardian and if the member has created a  
5 trust for the benefit of the child or children, payment of the increase  
6 attributable to each child will be made to the trust.

7 (2)(a) Subject to (b) of this subsection, if at the time of the  
8 duty connected death of a vested member with twenty or more service  
9 credit years of service as provided in subsection (1) of this section  
10 or a member retired for duty connected disability, the surviving spouse  
11 has not been lawfully married to such member for one year prior to  
12 retirement or separation from service if a vested member, the surviving  
13 spouse shall not be eligible to receive the benefits under this  
14 section(~~(:—PROVIDED, That))~~).

15 (b)(i) If the surviving spouse has been lawfully married to a  
16 member under (a) of this subsection for five years prior to the  
17 member's death, the surviving spouse, when at least age fifty-five, is  
18 eligible to receive the benefits under this section.

19 (ii) If a member dies as a result of a disability incurred in the  
20 line of duty, then if he or she was married at the time he or she was  
21 disabled, the surviving spouse shall be eligible to receive the  
22 benefits under this section.

23 (3) If there be no surviving spouse eligible to receive benefits at  
24 the time of such member's duty connected death, then the child or  
25 children of such member shall receive a monthly allowance equal to  
26 thirty percent of final average salary for one child and an additional  
27 ten percent for each additional child subject to a maximum combined  
28 payment, under this subsection, of sixty percent of final average  
29 salary. When there cease to be any eligible children as defined in RCW  
30 41.26.030(7), there shall be paid to the legal heirs of the member the  
31 excess, if any, of accumulated contributions of the member at the time  
32 of death over all payments made to survivors on his or her behalf under  
33 this chapter: PROVIDED, That payments under this subsection to  
34 children shall be prorated equally among the children, if more than  
35 one. If the member has created a trust for the benefit of the child or  
36 children, the payment shall be made to the trust.

37 (4) In the event that there is no surviving spouse eligible to

1 receive benefits under this section, and that there be no child or  
2 children eligible to receive benefits under this section, then the  
3 accumulated contributions shall be paid to the estate of the member.

4 (5) If a surviving spouse receiving benefits under this section  
5 remarries after June 13, 2002, the surviving spouse shall continue to  
6 receive the benefits under this section.

7 (6) If a surviving spouse receiving benefits under the provisions  
8 of this section thereafter dies and there are children as defined in  
9 RCW 41.26.030(7), payment to the spouse shall cease and the child or  
10 children shall receive the benefits as provided in subsection (3) of  
11 this section.

12 (7) The payment provided by this section shall become due the day  
13 following the date of death and payments shall be retroactive to that  
14 date.

15 **Sec. 2.** RCW 41.26.161 and 2002 c 158 s 2 are each amended to read  
16 as follows:

17 (1) In the event of the nonduty connected death of any member who  
18 is in active service, or who has vested under the provisions of RCW  
19 41.26.090 with twenty or more service credit years of service, or who  
20 is on disability leave or retired, whether for nonduty connected  
21 disability or service, the surviving spouse shall become entitled,  
22 subject to RCW 41.26.162(2), to receive a monthly allowance equal to  
23 fifty percent of the final average salary at the date of death if  
24 active, or the amount of retirement allowance the vested member would  
25 have received at age fifty, or the amount of the retirement allowance  
26 such retired member was receiving at the time of death if retired for  
27 service or nonduty connected disability. The amount of this allowance  
28 will be increased five percent of final average salary for each child  
29 as defined in RCW 41.26.030(7), subject to a maximum combined allowance  
30 of sixty percent of final average salary: PROVIDED, That if the child  
31 or children is or are in the care of a legal guardian, payment of the  
32 increase attributable to each child will be made to the child's legal  
33 guardian or, in the absence of a legal guardian and if the member has  
34 created a trust for the benefit of the child or children, payment of  
35 the increase attributable to each child will be made to the trust.

36 (2) If at the time of the death of a vested member with twenty or  
37 more service credit years of service as provided in subsection (1) of

1 this section or a member retired for service or disability, the  
2 surviving spouse has not been lawfully married to such member for one  
3 year prior to retirement or separation from service if a vested member,  
4 the surviving spouse shall not be eligible to receive the benefits  
5 under this section. However, if the surviving spouse has been lawfully  
6 married to such member for five years prior to the member's death, the  
7 surviving spouse, when at least age fifty-five, is eligible to receive  
8 the benefits under this section.

9 (3) If there be no surviving spouse eligible to receive benefits at  
10 the time of such member's death, then the child or children of such  
11 member shall receive a monthly allowance equal to thirty percent of  
12 final average salary for one child and an additional ten percent for  
13 each additional child subject to a maximum combined payment, under this  
14 subsection, of sixty percent of final average salary. When there cease  
15 to be any eligible children as defined in RCW 41.26.030(7), there shall  
16 be paid to the legal heirs of the member the excess, if any, of  
17 accumulated contributions of the member at the time of death over all  
18 payments made to survivors on his or her behalf under this chapter:  
19 PROVIDED, That payments under this subsection to children shall be  
20 prorated equally among the children, if more than one. If the member  
21 has created a trust for the benefit of the child or children, the  
22 payment shall be made to the trust.

23 (4) In the event that there is no surviving spouse eligible to  
24 receive benefits under this section, and that there be no child or  
25 children eligible to receive benefits under this section, then the  
26 accumulated contributions shall be paid to the estate of said member.

27 (5) If a surviving spouse receiving benefits under this section  
28 remarries after June 13, 2002, the surviving spouse shall continue to  
29 receive the benefits under this section.

30 (6) If a surviving spouse receiving benefits under the provisions  
31 of this section thereafter dies and there are children as defined in  
32 RCW 41.26.030(7), payment to the spouse shall cease and the child or  
33 children shall receive the benefits as provided in subsection (3) of  
34 this section.

35 (7) The payment provided by this section shall become due the day  
36 following the date of death and payments shall be retroactive to that

1 date.

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